

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS  
OF SAN BERNARDINO COUNTY, CALIFORNIA  
AND RECORD OF ACTION**

REVISED

November 30, 2004

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**FROM:** LEYDEN L. HAHN, Chief Information Officer  
Information Services Department

**SUBJECT:** IBM CUSTOMER AGREEMENT AND ENTERPRISE SERVER ACQUISITION

**RECOMMENDATION:**

1. Find it is in the best interest of the County to approve IBM as the sole source provider for the acquisition of hardware, software and services required to replace the County's Enterprise Server.
2. Approve the following items necessary to complete a three-year leasing and licensing contract with IBM totaling \$4,813,824 plus applicable taxes.

2.a) Approve extension of IBM Customer Agreement 01-856 to June 30, 2005.

2.b) Approve two three-year Term Lease Supplement Agreements under the Board approved IBM Master Lease Agreement #97-17. The combined amount is \$1,114,791 plus applicable taxes.

2.c) Approve three-year Enterprise Software and Services Option Agreement with IBM in an amount of \$3,699,033 plus applicable taxes.

**BACKGROUND INFORMATION:** Information Services Department (ISD) operates and maintains an IBM Enterprise computer, which supports 200 countywide departmental applications such as the Sheriff's Jail Management System, Property Information System, Tax Collections, Treasurer system, and FAS. IBM announced that they were withdrawing support for system effective September 30, 2004 on the County's aging mainframe. ISD contacted IBM for clarification and discovered that the County would receive continued support for a limited period of time while migrating to a new system. A new Enterprise Server will support existing applications and position the County to host new applications such as AMS FAS, the Jail Management web enhancement as well as other web applications using new technologies.

ISD required a bundled transaction as the most appropriate approach to replace the Enterprise Server to reduce risk to County operations and creates project accountability with a single vendor. The County's applications require the purchase of an IBM machine because they depend on IBM proprietary code. ISD issued an informal RFQ to determine whether other vendors or IBM partners have the ability to sell the IBM equipment and meet the software licensing requirements. IBM is the sole source for this acquisition because they do not allow partners to resell the Enterprise Licensing Component of this transaction. IBM is the world leader in providing enterprise systems and services and the County will benefit from their expertise in implementing such a large complex project.

IBM provides the County with a variety of services, software, and hardware under master IBM customer agreement 01-856 and IBM requires an extension of this agreement to June 30, 2005 to complete this transaction. The approval of the two three-year Term Lease Supplements are recommended because ISD decided to lease this system under Board approved IBM Master Lease Agreement #97-17.

Approval of this item will result in the timely replacement of the enterprise computer system and software needed to run critical County applications.

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**REVIEW AND APPROVAL BY OTHERS:** This item has been reviewed for legal form and content by County Counsel (Regina Coleman, Deputy County Counsel, 387-3266) on November 9, 2004; Purchasing Department (Aurelio De La Torre, Director, 387-2073) on November 22, 2004; and the County Administrative Office (Tracy Lindsay, Administrative Analyst, 387-4659) on November 22, 2004.

**FINANCIAL IMPACT:** The total three-year lease cost of this item is \$4,813,824 plus applicable taxes and will be funded by the current operating budgets associated with the system being replaced. This is an average annual cost of \$1,604,608. Current annual expenditures of related items on the existing system is \$ 1,673,763. There will be no local cost increase as a result of this item.

Funds available for this item are currently budgeted in ISD's Computer Operations ISF (IAJ-COD) and General Fund Application Development budgets (AAA-SDD).

IAJ-COD	\$4,615,008
AAA-SDD	<u>\$ 198,816</u>
Total	\$4,813,824

The Lease agreement has a fixed residual value of \$77,500 at lease end. The County will have the option to purchase, upgrade or return the equipment.

**Additional Impact:** The acquisition of the new Enterprise Server will have some ancillary costs associated with Third Party Software Vendors that require some cost increases as a result of licensing to a new system. ISD will bring contracts with Third Party Vendors to the Board as soon as final negotiations are complete. Current estimate of cost increases include one-time upgrade fees of \$72,334 and on-going annual support charges of \$72,340. ISD will fund these additional charges through savings generated by the reduction of software licenses on the new Enterprise Server. This occurs as a result of the new systems ability to consolidate Software packages into fewer licenses. There will be no local cost increase as a result of this item.

**COST REDUCTION REVIEW:** The County Administrative Office has reviewed this agenda item and recommends this action based on the need to provide and maintain enterprise services for departmental computer applications to run day to day County operations at no additional local cost.

**SUPERVISORIAL DISTRICT(S):** All

**PRESENTER:** David Rogers, Assistant Chief Information Officer, 388-5505.

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